



May 9, 2008

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**Re: APX Comments Regarding Questions Raised at the April 25<sup>th</sup> AB 32 Workshop on “Cost Containment”**

APX Inc. thanks CARB for the opportunity to submit these comments on questions raised by CARB staff at the April 25, 2008 AB 32 Program Design Technical Stakeholder Working Group Meeting focused on “cost containment.”

**1. What type of cost containment mechanisms should California consider for a potential cap-and-trade system?**

First, APX would like to emphasize that the transparency, accuracy, timeliness and quality of the information underlying the AB 32 mandatory emission caps and tracking systems is in itself a cost containment mechanism. That is, having the absolutely best, trusted, undisputed, and serialized information and data on compliance obligations, quantities of allowances and offsets, average prices, aggregate transaction volumes, and the like will help ensure that markets work efficiently and volatility is best limited. This role cannot be overemphasized.

APX also believes that having a broad-based geographic and sectoral market, particularly for offsets, can be an effective cost containment mechanism by increasing liquidity and lessening volatility. In particular with offsets, limiting the geographic scope of offsets can significantly decrease the available supply of such offsets and thus, drive up their cost and the cost of allowances. The U.S. EPA has recently completed a study regarding the sensitivity of allowance prices on the scope of program offsets, which illustrates their important role as a cost containment mechanism.

As has been discussed in several workshops, there are several highly regarded and widely recognized offset protocols and registries in the U.S., Canada and abroad, that use the highest levels of tracking, accountability, verification and transparency in their projects and offset creation. We are particularly familiar with are The Gold Standard and the California Climate Action Registry. It is our hope that these registries and protocols – and others of similar rigor and integrity -- will be recognized by CARB as trusted offsets systems in an effort to create a broad, staple supply of offsets, and thus minimize the costs of meeting AB 32 while ensuring the greatest emissions reductions.

We also believe banking can be an effective cost containment tool and mechanism for managing market volatility. We have witnessed this, in particular, through our involvement with the REC markets across the United States and with the EU ETS.

## **2. Is there a need to establish an independent market oversight body?**

APX has emphasized the critical importance of technology in managing compliance and oversight in many CARB workshops and other related forums. We are intrigued to learn more about your concept of an “independent market oversight body.” We believe that the establishment of an oversight body and systems to monitor market conditions would provide a mechanism to identify and respond to attempts at market manipulation or to intervene in the event of unacceptable economic impacts.

We do not have a specific recommendation regarding which entity should exist to ensure market oversight, where it should be placed administratively, and what its functions and mandates should be. However, we do believe that oversight responsibilities consist of two broad and distinct areas: (1) environmental compliance and enforcement, and (2) financial market oversight and the monitoring of economic impacts. These areas require very different core competencies and staff skill sets, and a fundamental question for consideration should be whether these responsibilities are managed within one or several administrative units.

Whether at the state, federal or international level, regulators and legislators in other jurisdictions have proposed possible market oversight requirements that include the potential tracking of transaction prices, volumes, positions, trading limits or position limits, tracking of intermediate transactions between counterparties, the potential need to report exchange transactions, forensic reporting and full audit trail capabilities for every transaction for the lifetime of the program, and the ability to investigate the possibility of fraud or manipulation in the marketplace via queries and reports of historical information. Given the potential that the new GHG market in North America could be 50 to 100 times larger than today’s U.S. acid rain markets, we believe the technology and capabilities underlying such tracking systems and registries will play an essential role in enabling market oversight at this scale.

We look forward to further workshops on the issue of oversight and compliance. We also attach a recent White Paper we prepared, entitled “Market Oversight of Emissions Markets: The Essential Role of Tracking and Registry Systems.”

## **3. Which systems should be considered for linkage with a potential California cap-and-trade system?**

As we mentioned above in response to CARB’s first question, APX does support linkage with other environmentally rigorous systems, particularly with regard to offsets. The Western Climate Initiative is at the forefront of such systems. Linkage to other similarly rigorous systems is one of the most cost-effective ways of achieving emissions reductions at a global level. However such a system must not compromise in any way the achievement of real, verifiable emission reductions, and this test must be met first.

Specifically, the movement of environmental certificates (allowances or credits) between market systems must be implemented in such a way as to eliminate the potential for double counting or double use of the certificates. Transfers must ensure that program integrity is maintained and that all rules are fulfilled on both sides of the linkage. Mechanisms for audit trails and required market oversight must be enabled for both the “imported” and “exported” certificates, and may involve a fairly deep level of integration between the linked market systems, if required. Finally, we suggest that the linkage must be implemented in an automated and cost effective way, to that it is not burdensome for either side in the linked markets. We are confident that these requirements can be met with currently existing technologies for market infrastructure.

Thank you again for the opportunity to submit these comments. APX looks forward to our further participation in the AB 32 stakeholder processes. Please call us if you have any questions at 408-512-2100, or via email at [jmelby@apx.com](mailto:jmelby@apx.com) or [rmusier@apx.com](mailto:rmusier@apx.com). Thank you.

Sincerely,

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Attachment